

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 PA-02 /119 W
-----011945 091201Z /42

R 091025Z AUG 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 6699
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

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USMTN ALSO FOR MISSION
USOECN ALSO FOR EMBASSY
PASS TREAS FRB
EO 11652: N/A
TAGS: EFIN, SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK JULY 31 -
AUGUST 4

1. SUMMARY: DOLLAR CONTINUED SLIDE BUT RECOVERED
SLIGHTLY FROM RECORD LOW LEVEL. GOLD REACHED NEW
HIGH. SNB ANNOUNCED MORE SWAPS WITH DOMESTIC BANKS
IN EFFORT TO HOLD DOWN 12-MONTH EURO-FRANC RATE AND
SUPPORT DOLLAR. SWISS EARNINGS FROM FOREIGN INVEST-
MENTS ROSE STRONGLY IN 1977. END SUMMARY.
2. FOREX GOLD: THE DOLLAR CAME UNDER MORE HEAVY
PRESSURE DURING THE WEEK, DECLINING TO A RECORD LOW
THURSDAY OF SF 1.6880 BEFORE RECOVERING IN LARGELY
SPECULATIVE TRADING FRIDAY TO SF 1.7110. DEALERS SAID
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THERE WERE FEW INDICATIONS OF DIRECT SNB INTERVENTION.
ALTHOUGH STRENGTH OF YEN AND PREVIOUS WEEK'S PREDICTION
BY SNB PRESIDENT LEUTWILER THAT FRANC APPRECIATION WILL
CONTINUE FOR THE FORESEEABLE FUTURE WERE CITED, PRESS
AND SNB SOURCE SAY US INFLATION RATE IS PRIMARY FACTOR.
SNB INTERESTED IN MILTON FRIEDMAN FORECAST US INFLATION
RATE MAY REACH 15 PCT WITHIN ONE YEAR; ATTENTION HERE NO

LONGER FOCUSING ON US TRADE AND BALANCE OF PAYMENTS DEFICITS. GOLD, WHICH WAS NOT TRADED TUESDAY THE SWISS NATIONAL DAY SOLD AT A HIGH OF 203.00 DOLS WEDNESDAY BEFORE SLIPPING IN QUIETER TRADING TO CLOSE THE WEEK NEARLY UNCHANGED FROM PREVIOUS FRIDAY. GOLD TRADERS ARE NERVOUS IN ABSENCE OF CLEARER TREND IN THE DOLLAR. DM WEAKNESS AGAINST SF ATTRIBUTED TO INCREASED GERMAN UNEMPLOYMENT AND STAGNATING ECONOMY. RATES FOLLOW:

7/31 (OPEN) 8/4 (CLOSE)

SPOT DOLLAR 1.7580 1.7110

FORWARD DISCOUNTS

(PCT PER ANNUM)

1 MONTH	7.03	8.21
2 MONTHS	6.75	7.61
3 MONTHS	6.80	7.41
6 MONTHS	6.89	7.32
12 MONTHS	6.55	7.51
SF/DM	86.02	84.26
GOLD	198.75	201.25

3. CAPITAL MONEY MARKETS: (A) ALTHOUGH DOLLAR AND MARK BOTH REACHED NEW LOWS AGAINST THE FRANC, STOCK MARKET WAS STABLE WITH FEW INVESTORS WILLING TO SELL AFTER SNB PRESIDENT LEUTWILER SAID INVESTMENT CURBS HAVE NOT BEEN SUCCESSFUL; PRESS COMMENTED SNB IS IN DIFFICULT SITUATION FOR WHICH IT ITSELF IS RESPONSIBLE. SKA INDEX CLOSED UP 0.4 PCT AT 254.4. AVERAGE YIELD UNCLASSIFIED

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CONFEDERATION BONDS STEADY AT 3.37. ONLY MAJOR BOND OFFERING ON HORIZON ISSUE BY CANTON OF LUZERN WITH 10 YEAR MATURITY EXPECTED TO YIELD 3.25 PCT. THREE-MONTH EUROFRANC RATE DECLINED TO ONE PCT AND TWELVE-MONTH RATE TO 1-1/8 PCT. (B) SNB ANNOUNCED SERIES OF DOLLAR/FRANC SWAPS WITH LARGE DOMESTIC BANKS WHICH SPOKESMAN SAID WAS INTENDED TO PUT DOWNWARD PRESSURE ON 12-MONTH EURO-FRANC RATE AND THEREBY TO INDIRECTLY SUPPORT THE DOLLAR. FIRST ROUND THURSDAY AMOUNTED TO 630 MILLION DOLS FOR 12 MONTHS AND 150 MILLION DOLS FOR ONE MONTH. FRIDAY ADDITIONAL 800 MILLION DOLS IN 12-MONTH SWAPS ARRANGED. THE FOUR MAJOR BANKS CUT TIME DEPOSIT RATES 1/4 PCT ACROSS THE BOARD WITH IMMEDIATE EFFECT. NEW RATES ARE 0.75 PCT FOR 3-5 MONTH DEPOSITS, 1.0 PCT FOR 6-11 MONTH DEPOSITS, AND 1.25 PCT FOR 12-MONTH DEPOSITS.

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4. SNB BALANCE SHEET: END JULY SNB BALANCE SHEET
TOTAL SF 35,868 MILLION WAS 6.9 PCT BELOW JUNE BUT
12.6 PCT ABOVE END JULY 1977. FOREX HOLDINGS DECREA-
SED 12.4 PCT IN JULY BUT WERE 42 PCT ABOVE END JULY
1977. NOTES IN CIRCULATION DOWN 2.5 PCT IN JULY BUT
4.4 PCT ABOVE END JULY 1977. GIRO ACCOUNTS DECREASED
29 PCT IN JUNE BUT WERE LESS THAN .1 PCT BELOW END
JULY 1977.

CHANGE FROM JUNE 30
(IN MILLIONS OF SF)

ASSETS

GOLD	11,904	----	----
FOREX	18,579	DOWN	2,621
ROOSA BONDS	2,908	DOWN	137
DISCOUNTED PAPER	1,687	UP	554
LOMBARD LOANS	161	DOWN	85
OTHER	629	DOWN	361

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TOTAL ASSETS:	35,868	DOWN	2,650
LIABILITIES			
NOTES IN CIRCULATION	19,473	DOWN	507
GIRO ACCOUNTS	7,720	DOWN	3,149
SIGHT DEPOSITS	3,416	DOWN	800

STERLIZAORDERS 3,396 UP 1,828

OTHER (INCL. GOVT

ACCT) 1,863 DOWN 22

TOTAL LIABILITIES: 35,868 DOWN 2,650

5. COMMENT: (A) AGEFI EDITORIAL ASKED 'QUEL DENOUEMENT?'. SWITZERLAND IS BECOMING THE ONLY SAFE HAVEN FOR CAPITAL. SWISS AUTHORITIES HAVE HAD ONLY A SLIGHT EFFECT ON FUNDAMENTAL MARKET FORCES. LEUTWILER STATEMENTS ON THE FUTURE APPRECIATION OF THE FRANC SHOW THAT HE IS AWARE THAT IT IS VAIN TO TRY TO COUNTER MARKET FORCES. ON THE ONE HAND ONE SEES THE DISINTEGRATION OF THE INTERNATIONAL MONETARY SYSTEM WHICH WILL BRING A REDISTRIBUTION OF THE CARDS; ON THE OTHER HAND, ONE SEES THE POTENTIAL FOR THE CREATION OF REGIONAL SYSTEMS SUCH AS THE EUROPEAN MONETARY FUND. PRESENT DIFFICULTIES ARE CREATING AN AWARENESS OF THE NEED FOR A MORE STABLE SYSTEM.

(B) BANK JULIUS BAER CO. AG IN WEEKLY REPORT ADVISES CLIENTS TO HOLD ASSETS IN SWISS FRANCS AND IN SHORT-TERM OBLIGATIONS IN VIEW OF POTENTIAL INTEREST RATE RISE. ONLY BRIEF MOVES SHOULD BE MADE INTO OTHER CURRENCIES UNTIL THE EXCHANGE RATE SITUATION STABILIZES.

6. FOREIGN INVESTMENT EARNINGS: SWISS EARNINGS FROM CAPITAL INVESTMENTS ABROAD ROSE BY SF 700 IN 1977 TO SF 6.03 BILLION. CURRENT ACCOUNT SURPLUS IN 1977 OF SF 8.27 BILLION COMPARED WITH SF 8.42 BILLION IN 1976 ALREADY REPORTED. FOREIGN INVESTMENT EARNINGS WOULD HAVE BEEN HIGHER HAD NOT SUBSTANTIAL RE-PAYMENT OF UNCLASSIFIED

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HIGH-INTEREST FOREIGN BONDS AND PRIVATE PLACEMENTS HAD RESTRAINING EFFECT ON RECEIPTS. INCREASE MAINLY DUE TO STRONG EXPANSION OF INVESTMENT ABROAD AND CREDITS GRANTED BY SWISS BANKS; HIGHER INTEREST RATES IN SHORT-TERM SECTOR ONLY MINOR INFLUENCE. CROWLEY

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